

# FDIC State Profile

Winter 2005

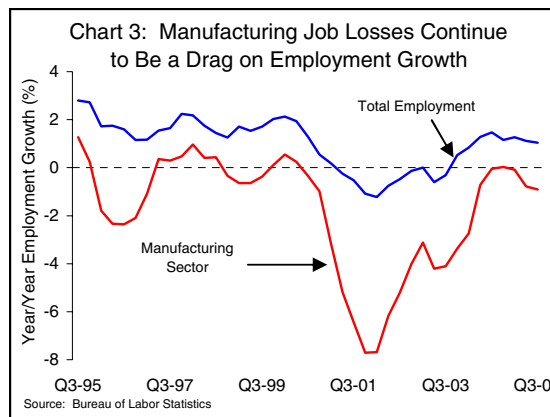
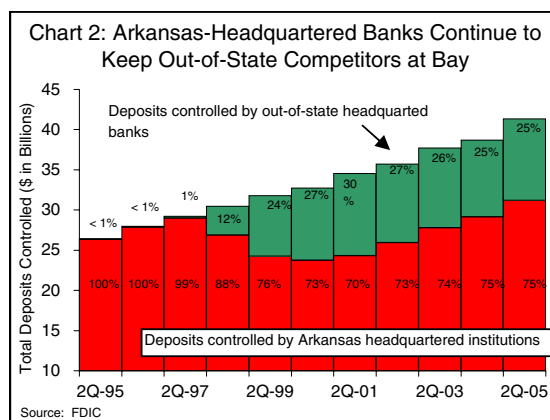
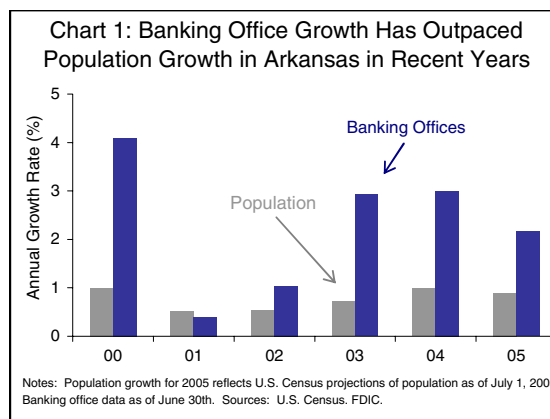
## Arkansas

**Strong merger and acquisition and branching trends point toward the highly competitive nature of the Arkansas banking market.**

- Merger and acquisition activity continues in the Arkansas banking market, as evidenced by the ninth fastest rate (negative 2.88 percent) of consolidation<sup>1</sup> in the nation over the past year. Over the past decade, only Hawaii has experienced a faster rate of consolidation than Arkansas,<sup>2</sup> albeit with a much smaller set of institutions.
- Robust branching activity further demonstrates the competitive nature of the Arkansas market. Since the end of the national recession in 2001, branching activity has picked up in Arkansas, with banking office growth more than double state population growth in each of the past three years (see Chart 1). The total number of banking offices in Arkansas grew 2.2 percent in second quarter 2005 from one year ago, exceeding the national average of 1.9 percent. Over the past three-year, five-year, and ten-year time horizons, Arkansas consistently ranks among the top ten in the nation for growth in number of banking offices.
- This level of competition is likely beneficial for Arkansas consumers because it typically helps to reduce the cost of banking products while expanding the range of available products.

**Arkansas-headquartered institutions continue to regain market share from out-of-state competitors.**

- While the gain was negligible over this past year, second quarter 2005 marks the fourth consecutive year that Arkansas-headquartered institutions have taken back market share from their out-of-state competitors. In 2001, out-of-state companies controlled 30 percent of total deposits held within the state. However, this ratio decreased every year since and now stands at slightly less than 25 percent (see Chart 2).
- On an aggregate basis, Arkansas-headquartered institutions have grown their total deposit base by 28



<sup>1</sup>Year-over-year percent change in the number of institutions currently operating within the state, net of new bank formations and mergers and acquisitions.

<sup>2</sup>This rapid rate of consolidation is due, in part, to the fact that Arkansas was one of the last states to remove intrastate branching restrictions, in 1994.

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percent between second quarters 2001 and 2005, while out-of-state competitors control approximately \$50 million less (negative 0.48 percent) in total deposits for the same time period.

**The highly competitive nature of the Arkansas banking market appears to be a primary cause for the increased reliance on non-core funding.**

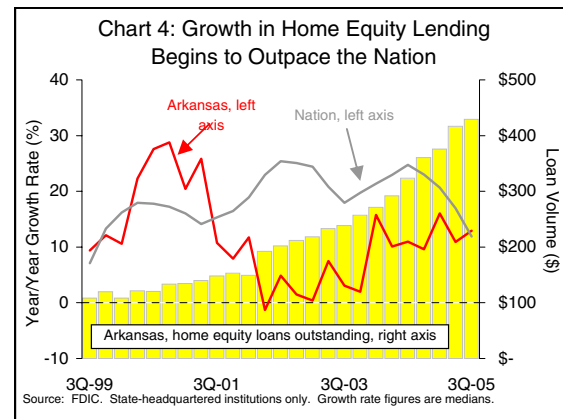
- At 29 percent, Arkansas now has the second highest non-core funding to total assets ratio in the nation, up approximately four percentage points from one year ago. Due to strong competition for deposits, state institutions have had to supplement traditional funding sources with a variety of new, but potentially less stable and more expensive, funding instruments.
- In state metropolitan markets this trend is even more pronounced, as **Little Rock** (11<sup>th</sup>), **Fayetteville-Springdale-Rogers** (16<sup>th</sup>), and **Jonesboro** (20<sup>th</sup>) all rank within the top 20 (out of 223 MSAs) for non-core funding reliance.
- Non-core funding is typically more sensitive to changes in interest rates than core deposits. Therefore, a higher ratio reflects a reliance on funding sources that may not be as readily available in times of financial stress or adverse market conditions.
- Because of the state's relatively high reliance on non-core funding, additional increases in short-term interest rates or continued flattening in the yield curve may adversely affect the profitability of Arkansas-headquartered institutions to a greater degree than institutions in other states.

**The manufacturing sector continues to drag down otherwise strong employment growth.**

- The education/health services and government sectors continue to sustain economic expansion in Arkansas, adding approximately 8,000 of the 12,000 new jobs created in the state over the past year. Third quarter 2005 marks the sixth consecutive quarter of year-over-year total employment growth in excess of 1 percent.
- However, employment growth has declined steadily from the most recent peak of 1.47 percent one year ago to 1.04 percent in the current quarter (see Chart 3). This slowing is attributed to renewed weakness in the manufacturing sector, particularly the durable goods manufacturing sub-sector. Any further interest rate increases are likely to soften demand for durable goods and result in further weakness in related manufacturing employment.

**Growth in home equity lending is driven by the dynamics of the Fayetteville-Springdale-Rogers market.**

- Despite rising interest rates, Arkansas is experiencing increased home equity lending growth in excess of the national median (see Chart 4).
- The cause for this upsurge in home equity lending appears to be tied to the Fayetteville-Springdale-Rogers market. The 15 area-headquartered institutions account for 25 percent of total assets held by Arkansas-headquartered institutions, but 55 percent of the total dollar volume of home equity loans made within the state in the past year. Furthermore, median year-over-year growth in home equity loans has surged nearly 70 percent at these institutions. The influx of relatively high income and less interest rate sensitive households, many with significant equity due to relocating from major housing markets, appears to be a notable cause for the growth.



## Arkansas at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2004</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.0%	1.1%	1.5%	1.2%	-0.1%
Manufacturing (17%)	-1.0%	-0.8%	0.0%	-0.9%	-3.7%
Other (non-manufacturing) Goods-Producing (5%)	2.1%	2.2%	2.6%	1.8%	-5.4%
Private Service-Producing (60%)	1.3%	1.4%	1.9%	1.8%	1.0%
Government (17%)	1.9%	1.7%	1.0%	1.1%	1.6%
Unemployment Rate (% of labor force)	5.0	4.9	5.7	5.7	5.9
<b>Other Indicators</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2004</b>
Personal Income	N/A	5.9%	7.0%	7.2%	4.4%
Single-Family Home Permits	10.0%	12.2%	1.1%	4.8%	15.9%
Multifamily Building Permits	-23.3%	-67.4%	6.4%	18.7%	16.2%
Existing Home Sales	32.1%	15.8%	13.4%	13.2%	3.1%
Home Price Index	8.6%	8.1%	6.1%	5.9%	4.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	11.85	9.60	8.89	8.80	9.27

**BANKING TRENDS**

<b>General Information</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2004</b>
Institutions (#)	163	163	168	168	170
Total Assets (in millions)	43,650	42,280	39,682	40,688	38,129
New Institutions (# < 3 years)	2	1	0	0	0
Subchapter S Institutions	34	33	32	32	31
<b>Asset Quality</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2004</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.91	2.13	2.21	2.34	2.83
ALLL/Total Loans (median %)	1.41	1.46	1.43	1.50	1.47
ALLL/Noncurrent Loans (median multiple)	1.57	1.44	1.45	1.50	1.30
Net Loan Losses / Total Loans (median %)	0.09	0.10	0.13	0.20	0.29
<b>Capital / Earnings</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2004</b>
Tier 1 Leverage (median %)	9.91	10.00	10.11	9.80	9.78
Return on Assets (median %)	1.07	1.10	1.18	1.09	1.09
Pretax Return on Assets (median %)	1.48	1.49	1.64	1.52	1.50
Net Interest Margin (median %)	4.08	4.08	4.18	4.14	4.13
Yield on Earning Assets (median %)	6.25	5.97	5.77	5.66	5.99
Cost of Funding Earning Assets (median %)	2.18	1.98	1.59	1.57	1.84
Provisions to Avg. Assets (median %)	0.12	0.12	0.15	0.16	0.22
Noninterest Income to Avg. Assets (median %)	0.78	0.78	0.74	0.72	0.75
Overhead to Avg. Assets (median %)	2.87	2.83	2.81	2.81	2.82
<b>Liquidity / Sensitivity</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2004</b>
Loans to Assets (median %)	63.8	62.2	61.3	60.6	59.1
Noncore Funding to Assets (median %)	28.7	27.6	25.1	25.0	23.9
Long-term Assets to Assets (median %, call filers)	12.6	12.3	13.2	12.3	14.9
Brokered Deposits (number of institutions)	60	49	44	45	40
Brokered Deposits to Assets (median % for those above)	3.7	4.7	4.5	5.2	3.9
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2004</b>
Commercial and Industrial	77.9	76.3	82.3	79.2	81.0
Commercial Real Estate	175.1	175.9	157.7	170.6	151.4
Construction & Development	50.6	46.9	35.9	40.5	27.3
Multifamily Residential Real Estate	4.0	4.4	3.7	4.0	3.9
Nonresidential Real Estate	122.0	120.3	113.0	117.1	113.5
Residential Real Estate	146.0	146.9	146.5	154.0	156.7
Consumer	51.5	52.7	55.6	55.4	62.2
Agriculture	48.3	47.8	44.7	41.9	44.3

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Memphis, TN-MS-AR	52	26,946	< \$250 million	121 (74.2%)
Little Rock-North Little Rock, AR	37	9,799	\$250 million to \$1 billion	36 (22.1%)
Fayetteville-Springdale-Rogers, AR-MO	30	6,365	\$1 billion to \$10 billion	6 (3.7%)
Fort Smith, AR-OK	23	3,514	> \$10 billion	0 (0%)
Jonesboro, AR	15	1,957		